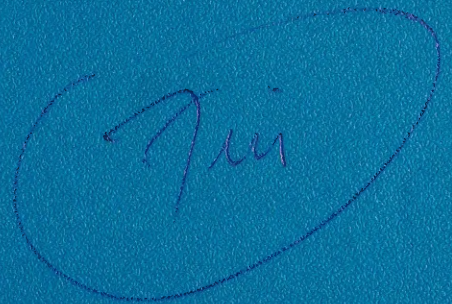


Highland-Bell

LIMITED



29th

Annual Report-1964

Annual Meeting



The Annual General Meeting of the Shareholders will be held on Thursday, the 29th day of April, 1965 at 11 o'clock in the morning at the Patricia Room, Hotel Georgia, Vancouver, B.C.

APR 21 1965

HIGHLAND-BELL LIMITED

(Incorporated under the Laws of the Province of British Columbia)

Authorized Capital:

340,000 5% non-cumulative redeemable preferred shares of
\$1.00 par value per share.

1,660,000 common shares of \$1.00 par value per share.

DIRECTORS

KARL J. SPRINGER	- - - - -	- Toronto, Ont.
J. J. CROWHURST	- - - - -	- Vancouver, B.C.
R. A. C. DOUGLAS	- - - - -	- Vancouver, B.C.
J. H. C. McCLELLAND	- - - - -	- Toronto, Ont.
W. A. McELMOYLE	- - - - -	- Victoria, B.C.
M. M. O'BRIEN	- - - - -	- Vancouver, B.C.
R. E. PURVIS	- - - - -	- Seattle, Wash.

OFFICERS

KARL J. SPRINGER	- - - - -	- President
J. H. C. McCLELLAND	- - - - -	- Vice-President
J. J. CROWHURST	- - - - -	- Vice-President in Charge of Operations
J. D. MUNROE	- - - - -	- Secretary-Treasurer

OTHER EXECUTIVES

O. S. PERRY	- - - - -	- Mine Manager
W. R. BACON	- - - - -	- Exploration Manager

AUDITORS

PEAT, MARWICK, MITCHELL & CO.	- - - - -	- Vancouver, B.C.
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SOLICITORS

DOUGLAS, SYMES & BRISSENDEN	- - - - -	- Vancouver, B.C.
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TRANSFER AGENTS

THE CANADA TRUST COMPANY	- - -	- Vancouver, B.C. and Toronto, Ont.
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BANKERS

CANADIAN IMPERIAL BANK OF COMMERCE	-	- Vancouver and Penticton, B.C.
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EXECUTIVE OFFICE: 502 - 1200 WEST PENDER STREET, VANCOUVER 1, B.C.

Report of the Directors

To the Shareholders:

Your Directors submit herewith their Annual Report for the year ended December 31st, 1964, including the Consolidated Financial Statements, Auditors' Report, and the Mine Manager's Report.

REVENUE AND EARNINGS

Operating profits were lower during 1964 than in 1963; however, it is the second best year in your company's history. Earnings or cash flow in 1964, after outside exploration, administration and taxes, but before depreciation and preproduction write-offs, were \$481,280, or 29½¢ per share.

As you will note from the Mine Manager's Report, the grade of ore is lower and the ore position overall is no longer as good. Future earnings are therefore likely to decline, unless the increased underground exploration opens up new ore possibilities.

INVESTMENTS

The appreciation in the market value of shares held in Mattagami Lake Mines Limited and Leitch Gold Mines Limited resulted in a substantial increase in the value of your Company's investments. Market value at the year end was approximately \$9,245,726.

Mattagami Lake Mines Limited and the Canadian Electrolytic Zinc plant at Valleyfield, in which Mattagami holds a 62½% interest, had a full year of successful operation. Mattagami's estimated profit, including its share of the zinc plant profit, after provision for all taxes but before write-offs, amounted to \$17,729,000. Depreciation and amortization of preproduction expenses, deferred development and debenture discount totalled \$5,138,000. The estimated net profit was \$12,591,000 representing \$1.91 per share. Plans have been made by Canadian Electrolytic Zinc to increase refined zinc production and to participate in the manufacture of by-product fertilizers.

Leitch Gold Mines Limited, in which your company owns 300,000 shares, will have exhausted ore reserves early in 1965 and will then dispose of its mining plant and equipment. This will complete about 28 years of very profitable operation.

Canada Tungsten Mining Corporation Ltd., resumed operations in the Northwest Territories

during the last half of 1964. A greatly improved world demand for tungsten has enabled the negotiation of long term sales contracts with various customers throughout the world and initial shipments have been made. Customer acceptance on the basis of quality has now been assured.

Burnaby Iron Mines Limited is the company formed jointly by Mastodon-Highland Bell Mines Ltd., and Leitch Gold Mines Limited to acquire iron ore deposits on Burnaby Island, situated in the southern Queen Charlotte Islands, British Columbia. During the year a magnetometer survey of the offshore claims was undertaken. The presence of several additional substantial magnetic anomalies contained in an area 4,000 feet by 8,000 feet has been detected. Additional diamond drilling to explore further the mineralization encountered previously is planned.

Newfoundland Zinc Mines Limited completed ninety-six diamond drill holes in 1964, totalling 17,000 feet. Two zones, "B" and "C", were outlined. The "B" zone is estimated to contain 50,000 tons of 5% zinc. The "C" zone, which is open at both ends, contains an estimated 435,000 tons of 6% zinc in the drilled area. Additional diamond drilling is planned.

OUTSIDE EXPLORATION

Highland-Bell Limited—

An extensive geophysical survey was carried out in the Omineca area of British Columbia. The results of this survey justify further follow up work.

Mastodon-Highland Bell Mines Ltd.—

A major helicopter operation was carried out in the Stikine River area with exploration undertaken west, north and east of Telegraph Creek. This program was unsuccessful in locating anything of significance.

Prospecting in central British Columbia was sufficiently encouraging to warrant acquiring several groups of claims on which further work will be performed during this coming season.

Investigations in the southern B.C. coastal area located a zone of interest showing some molybdenum and copper mineralization. Claims were staked and further work is warranted.

Options were taken on three properties in Northern British Columbia and one in south-eastern Alaska. Subsequent to examination these options were dropped.

Newfoundland Concessions—

A helicopter - supported geological - geochemical program was carried out on both the North and South concessions. Nothing new of economic importance was discovered. The Trapper anomaly, found on the South Concession in 1963, was confirmed and detailed, and will be diamond drilled in 1965.

Texas Gulf Sulphur Co. Inc.—

Pursuant to the exploration agreement between Texas Gulf Sulphur Co. Inc. and Leitch Gold Mines Limited and Mastodon-Highland Bell Mines Ltd., several groups of claims were staked and ninety anomalies investigated by ground geophysics. One anomaly was drilled and proved to be caused by barren sulphides and graphite. A number of other anomalies of importance remain to be examined; these have been staked and will be drilled this season.

On June 5th, 1964, Leitch Gold Mines Limited and Mastodon-Highland Bell Mines Ltd., issued a Writ in the Supreme Court of Ontario against Texas Gulf Sulphur Co. Inc., claiming breach of the terms of an Agreement dated as of the 1st day of February, 1963, between Texas Gulf Sulphur Co. Inc., and Leitch Gold Mines Limited in which Mastodon-Highland Bell Mines Ltd. has a one-half interest. A statement of claim was filed on September 1st, 1964, claiming *inter alia*:—

All lands, mining claims and mining rights and interest thereon and rights thereto held by Texas Gulf Sulphur Co. Inc., in a surveyed area known as 3 Prosser-Geary covered by aerial geophysical surveys conducted by Texas Gulf Sulphur Co. Inc., which are subject to said Agreement. The surveyed area 3 Prosser-Geary covers all or portions of the following Townships in the District of Cochrane, Province of Ontario:—

Tully, Prosser, Wark, Crawford, Carnegie, Kidd, Mahaffy, Reid, MacDiarmid, Geary, Thorburn- Loveland, Wilhelmina, Moberly and Byers.

or as an alternative to the above claim, damages in the sum of \$400,000,000; and

damages in the amount of \$50,000,000 for loss of advantages and opportunities to acquire mining properties.

Counsel are proceeding with the preparation for trial.

Eastern Canada—

The option to Rio Tinto Canadian Exploration Limited on the property of Wawagosic Syndicate was cancelled and further work is planned by the Syndicate on this ground during the coming season. A large number of anomalies found on the areas covered by the aerial geophysical surveys received from Texas Gulf Sulphur Co. Inc. have been investigated on the ground and a number of groups of claims have been staked. Some of these will be investigated further by diamond drilling during 1965. A geochemical reconnaissance survey in south-western Ontario and the Gaspé Peninsula did not locate anything of economic importance.

Your Company participated in the Ivanhoe Syndicate with Leitch Gold Mines Limited, Area Mines Limited and McIntyre Porcupine Mines Limited. This Syndicate carried out an aerial geophysical survey in the Groundhog River area, Northern Ontario. Work is continuing to investigate the results obtained by ground geophysics and diamond drilling.

Ireland—

A geochemical survey of the Claim Concession showed an extremely large lead anomaly. Deep sampling suggested it was due to tailings from the old mine being spread as top dressing on the fields. One drill hole below the old workings found minor amounts of galena. Three geophysical anomalies were drilled, all with negative results. No further work is planned.

It is a pleasure at this time to express our appreciation to your General Manager, Mr. J. J. Crowhurst; your Mine Manager, Mr. O. S. Perry; and your Exploration Manager, Dr. W. R. Bacon; and to their staffs for their fine co-operation and efficient work on behalf of your Company during the past year.

On behalf of the Board,

K. J. SPRINGER, *President*

Vancouver, B.C.
March 24th, 1965.

Mine Manager's Report

The President and Directors
Highland-Bell Limited
502 — 1200 West Pender Street
Vancouver 1, B.C.

Dear Sirs:

The annual report on the operations of Mastodon-Highland Bell Mines Ltd., at Beaverdell, B.C. for the year 1964 is herewith submitted:—

MINE

Due to the encouragement met with in the 3016 stope where the ore continued wide and strong across the diorite contact into the sediments and tuffs, development work searching for new ore during the past year has been concentrated in the east end of the ore-bearing zone. Drifts were put out from the 3,000 and 2,900 levels; the area on strike, but beyond known ore occurrences, was diamond drilled. Results from the drilling indicate a black slaty brecciated zone is present in the sediments running roughly parallel to the bedding — where the latter can be determined. It is in this brecciated zone that ore intersections have been made. Subsequent development opening up the intersections exposed some high grade ore in the drifts. When stoping was commenced the results were erratic. The occurrences were found to be limited in extent and discontinuous between diamond drill intersections. The black slaty bed subsequently brecciated by post ore faulting represents a zone of weakness in the otherwise competent sediments allowing for ore

deposition. Severe post ore faulting has doubled up the segments giving rise to good stoping widths which, however, are limited in area. There is some indication that the main ore-bearing structure is weakening at depth, and towards the east on strike. An accelerated campaign of diamond drilling and crosscutting is being carried out to explore the continuation of the ore in these directions.

BELL EXPLORATION

During the year 1951, twenty holes were drilled to explore under the abandoned "Bell" workings for a down dip extension. Numerous high grade but narrow intersections were made, which at that time, were not considered mineable widths. With the significant increase in the price of silver it is now planned to enter these old workings, open up the known ore and generally re-explore this area.

MILL

The ball mill from the Mastodon Mine near Revelstoke has been installed in the mill at Beaverdell further increasing the grinding capacity to a possible 115 tons per day.

PLANT AND EQUIPMENT

The demand for power increased substantially during the year due to an additional shift underground and rising uses in the community. A third diesel generating set was purchased and installed in the powerhouse. Three units are now in operation, any two of which adequately meet the present demand.

EXPLORATION AND DEVELOPMENT

Summary:—

Diamond drilling.....	7,905 feet		
Crosscutting.....	422 feet		
Raising.....	684 feet		
Drifting.....	1,920 feet		
Unit cost per foot of advance:—	1962	1963	1964
Drifting and crosscutting.....	\$25.46	\$23.39	\$27.14
Raising.....	32.85	27.19	33.22

MILLING

	1962	1963	1964
Ore milled (tons).....	19,480	21,689	25,090
Concentrates shipped (produced)—			
Jig.....	299	351	370
Lead.....	1,886	1,766	1,578
Zinc.....	792	734	573
	<u>2,977</u>	<u>2,851</u>	<u>2,521</u>

COSTS PER TON

	1964
Exploration and development.....	\$ 4.28
Mining.....	6.93
Milling.....	6.01
Ore handling and marketing.....	4.13
Total mine operating costs.....	<u>\$21.35</u>

REVENUE

	1964
Silver.....	\$1,049,913
Lead.....	61,292
Zinc.....	53,251
Gold.....	16,866
Cadmium.....	7,905
	<u>1,189,227</u>
Less freight and treatment.....	87,344
Net revenue.....	<u>\$1,101,883</u>

PRODUCTION COMPARISON STATISTICS

Year	Dry tons milled	Ag. ozs. per ton	Ag. ozs. produced	Average net price paid by Smelter		
				Silver	Lead	Zinc
1960	18,204	51.70	903,614	82.53	6.92	4.62
1961	18,954	46.48	880,892	89.16	6.36	4.24
1962	19,480	42.77	833,153	110.10	5.96	3.98
1963	21,689	40.48	877,861	129.04	6.99	4.71
1964	25,090	32.28	809,819	129.65	10.13	6.97

From 1951 to 1964 inclusive 233,754 tons were milled producing 10,340,380 ounces of silver, the average grade being 44.23 oz. Ag. per ton.

GENERAL

Operating expense at the property increased over the previous year by \$112,612. This is due mainly to the increased tempo of exploration and diamond drilling along with increased cost of labour.

The total ounces of silver produced is at the same time less due to the gradual decrease in the overall grade of ore mined. Mill tonnage was increased during the latter months of the year offsetting this to some extent.

The writer wishes to thank the President and Directors of the Company for their active co-operation, and the staff and employees for their loyal assistance.

Respectfully submitted,

O. S. PERRY, Manager

Beaverdell, B.C.

February 19th, 1965.

HIGHLAND - BELL LIMITED

and subsidiary company **MASTODON-HIGHLAND BELL MINING**

ASSETS

		<u>1964</u>	<u>1963</u>
Current assets:			
Cash		\$ 377,234	18,853
Marketable securities and short-term investments, at cost (market value \$9,245,726; 1963 \$5,372,353)		1,248,066	1,259,886
Accounts receivable:			
Smelter settlement	\$ 113,648		
Other	<u>31,117</u>	144,765	199,994
Inventory of supplies, at cost		35,532	39,493
Prepaid expenses		9,862	13,779
Refundable deposits		<u>625</u>	<u>4,388</u>
Total current assets		1,816,084	1,536,393
Other investments:			
Non-marketable securities		9,254	2,754
Buildings, machinery and equipment (Note 1):			
Producing mine, at cost	843,783		
Less accumulated depreciation	<u>609,334</u>		
	233,449		
Other mine, at nominal value less proceeds of disposal	<u>31,231</u>	264,680	251,854
Mineral claims and properties:			
Producing mine, at cost	1,723,699		
Other, at nominal value	<u>1</u>	1,723,700	1,723,700
Leasehold improvements, at cost less amounts written off		3,303	4,404
Preliminary development and preproduction expenses, at cost less amounts written off (Note 2)		—	194,140
Incorporation and organization expenses		<u>3,560</u>	<u>3,560</u>
		<u>\$3,820,581</u>	<u>3,716,805</u>

Approved on behalf of the Board:

K. J. SPRINGER, Director

M. M. O'BRIEN, Director

consolidated balance sheet - December 31st, 1964

(With comparative figures for 1963)

LIABILITIES

		<u>1964</u>	<u>1963</u>
Current liabilities:			
Bank loan, secured by marketable securities		\$ 150,000	48,000
Accounts payable		84,763	49,873
Accrued liabilities		5,918	4,531
Mining taxes payable		<u>8,990</u>	<u>—</u>
Total current liabilities		249,671	102,404
5% debenture payable	\$ 325,591		
Less redeemed during year	<u>325,591</u>	<u>—</u>	<u>—</u>
Minority interest		1	1
Capital and surplus:			
Capital (Note 3):			
5% non-cumulative redeemable preference shares			
of \$1 par value per share. Authorized			
340,000 shares; issued and redeemed during			
year 325,591 shares (1963 324,591).			
Common shares of \$1 par value per share.			
Authorized 1,660,000 shares; issued and			
fully paid 1,632,955 shares (1963 1,622,955):			
For cash (including 10,000 shares			
issued during the year)	50,005		
For consideration other than cash	<u>1,582,950</u>		
	1632,955		
Surplus, per accompanying statement	<u>1,937,954</u>	3,570,909	3,614,400
		<u>\$3,820,581</u>	<u>3,716,805</u>

See accompanying notes to consolidated financial statements.

HIGHLAND-BELL LIMITED

and subsidiary company

MASTODON-HIGHLAND MINES LIMITED

consolidated statement of profit and loss

Year ended December 31, 1964 • with comparative figures for 1963

	1964	1963
Concentrate sales	<u>\$1,189,227</u>	<u>1,267,826</u>
Mining and milling expenses:		
Ore handling and marketing	103,735	105,637
Stoping	173,972	164,926
Exploration and development	143,649	68,411
Mill operating	<u>150,496</u>	<u>120,266</u>
	<u>571,852</u>	<u>459,240</u>
Operating profit	<u>617,375</u>	<u>808,586</u>
Head office and administrative expenses (including directors' fees of \$2,100)	97,342	97,345
Outside exploration	<u>202,474</u>	<u>138,928</u>
	<u>299,816</u>	<u>236,273</u>
	<u>317,559</u>	<u>572,313</u>
Other Income:		
Dividends	30,000	20,170
Interest	1,853	—
Gain on sale of investments	140,038	9,768
Miscellaneous	<u>820</u>	<u>472</u>
	<u>172,711</u>	<u>30,410</u>
Profit before depreciation and amortization and mining taxes	<u>490,270</u>	<u>602,723</u>
Depreciation (Note 1)	27,040	23,216
Amortization of preliminary development and preproduction expenses (Note 2)	<u>194,140</u>	<u>194,140</u>
	<u>221,180</u>	<u>217,356</u>
Profit before mining taxes	269,090	385,367
Mining taxes	<u>8,990</u>	<u>—</u>
Consolidated net profit for the year (Note 4)	<u>\$ 260,100</u>	<u>385,367</u>

See accompanying notes to consolidated financial statements.

HIGHLAND-BELL LIMITED
and subsidiary company
MASTODON-HIGHLAND MINES LIMITED

consolidated statement of surplus

Year ended December 31, 1964 • with comparative figures for 1963

	1964	1963
Earned:		
Balance at beginning of year	\$ 902,450	841,674
Add consolidated net profit for the year	<u>260,100</u>	<u>385,367</u>
	1,162,550	1,227,041
Deduct stock dividend	<u>325,591</u>	<u>324,591</u>
	<u>836,959</u>	<u>902,450</u>
Contributed surplus arising from premiums on shares issued:		
Balance at beginning of year	10,500	3,750
Premiums on shares issued for cash during the year	<u>12,000</u>	<u>6,750</u>
	<u>22,500</u>	<u>10,500</u>
Excess of book value of shares of subsidiary company over purchase price at dates of acquisition	<u>1,078,495</u>	<u>1,078,495</u>
Total consolidated surplus at end of year	<u><u>\$1,937,954</u></u>	<u><u>1,991,445</u></u>

See accompanying notes to financial statements.



HIGHLAND - BELL LIMITED

and subsidiary company

Auditors' Report to the Shareholders

We have examined the consolidated balance sheet of Highland-Bell Limited and subsidiary company, Mastodon-Highland Bell Mines Ltd. as of December 31, 1964 and the consolidated statements of profit and loss and surplus for the year ended on that date and have obtained all the information and explanations we have required. Our examination included a general review of the accounting procedures and such tests of accounting records and other supporting evidence as we considered necessary in the circumstances.

In our opinion, and according to the best of our information and the explanations given to us and as shown by the books of the companies, the accompanying consolidated balance sheet and consolidated statements of profit and loss and surplus are properly drawn up so as to exhibit a true and correct view of the state of the combined affairs of the companies at December 31, 1964 and the results of their operations for the year ended on that date, in accordance with generally accepted accounting principles applied on a basis consistent with that of the preceding year. Also, in our opinion, the accompanying consolidated statements of working capital and source and application of funds present fairly the information shown therein.

PEAT, MARWICK, MITCHELL & CO.,
Chartered Accountants

Vancouver, B.C.
March 8, 1965.

MASTODON-HIGHLAND BELL MINES LTD.

1. Depreciation is being recorded in the accounts at 10% on the reducing balance of the buildings, machinery and equipment at the producing mine and nothing on the assets at the non-producing mine (these assets having been written down to a nominal value).
2. The subsidiary company continued the policy adopted in 1961 of amortizing preliminary development and preproduction expenses of its non-producing mine on a straight-line basis over four years. The final amount was charged in the accounts this year.
3. During the year, 10,000 shares were issued to the mine manager of the subsidiary company at \$2.20 per share under an option granted in 1963.
4. No taxes on income are payable for the year as:
 - (a) the subsidiary company intends to claim depreciation, development, pre-production and exploration expenses in excess of that recorded in the accounts,
 - (b) the parent company's income is derived entirely from tax-free dividends.
5. The subsidiary company and Leitch Gold Mines Limited (Plaintiffs) have instituted an action in the Supreme Court of Ontario against Texas Gulf Sulphur Company, Inc. (Defendants) claiming breach of an agreement in which each of the plaintiffs has an equal interest. The plaintiffs' claim, inter alia, certain lands, mining claims and mining rights and interest therein and rights thereto or as an alternative, damages of \$450,000,000. No provisions has been made in the accounts for unbilled legal and consulting fees in connection with the action. Certain litigation costs incurred have been reflected in the accompanying financial statements.

Notes to Consolidated Financial Statements

December 31, 1964

HIGHLAND - BELL LIMITED

and subsidiary company

MASTODON-HIGHLAND BELL MINES LTD.

consolidated statement of working capital

	December 31		Working Capital	
	1964	1963	Increase	Decrease
Current assets:				
Cash	\$ 377,234	18,853	\$358,381	
Marketable securities	1,248,066	1,259,886		\$ 11,820
Accounts receivable	144,765	199,994		55,229
Inventory of supplies	35,532	39,493		3,961
Prepaid expenses	9,862	13,779		3,917
Refundable deposits	625	4,388		3,763
	<u>1,816,084</u>	<u>1,536,393</u>		
Current liabilities:				
Bank loan	150,000	48,000		102,000
Accounts payable	84,763	49,873		34,890
Accrued expenses	5,918	4,531		1,387
Mining taxes payable	8,990	—		8,990
	<u>249,671</u>	<u>102,404</u>		
Working capital	<u>\$1,566,413</u>	<u>1,433,989</u>		
Increase in working capital			<u>\$358,381</u>	<u>132,424</u>

consolidated statement of source and application of funds

Year ended December 31, 1964

Funds provided by:

Operations:

Consolidated net profit for the year		\$260,100
Add items not representing an outlay of funds:		
Depreciation	\$ 27,040	
Write down of investment	750	
Preliminary development and preproduction expenses	<u>194,140</u>	221,930
Sale of machinery and equipment		<u>27,167</u>
Shares issued pursuant to an option agreement		<u>22,000</u>
		531,197

Funds applied to:

Purchase of buildings, machinery and equipment	65,932	
Purchase of non-marketable securities	7,250	
Redemption of preference shares issued as a stock dividend	<u>325,591</u>	398,773
Increase in working capital		<u>\$132,424</u>

Highland-Bell
LIMITED

